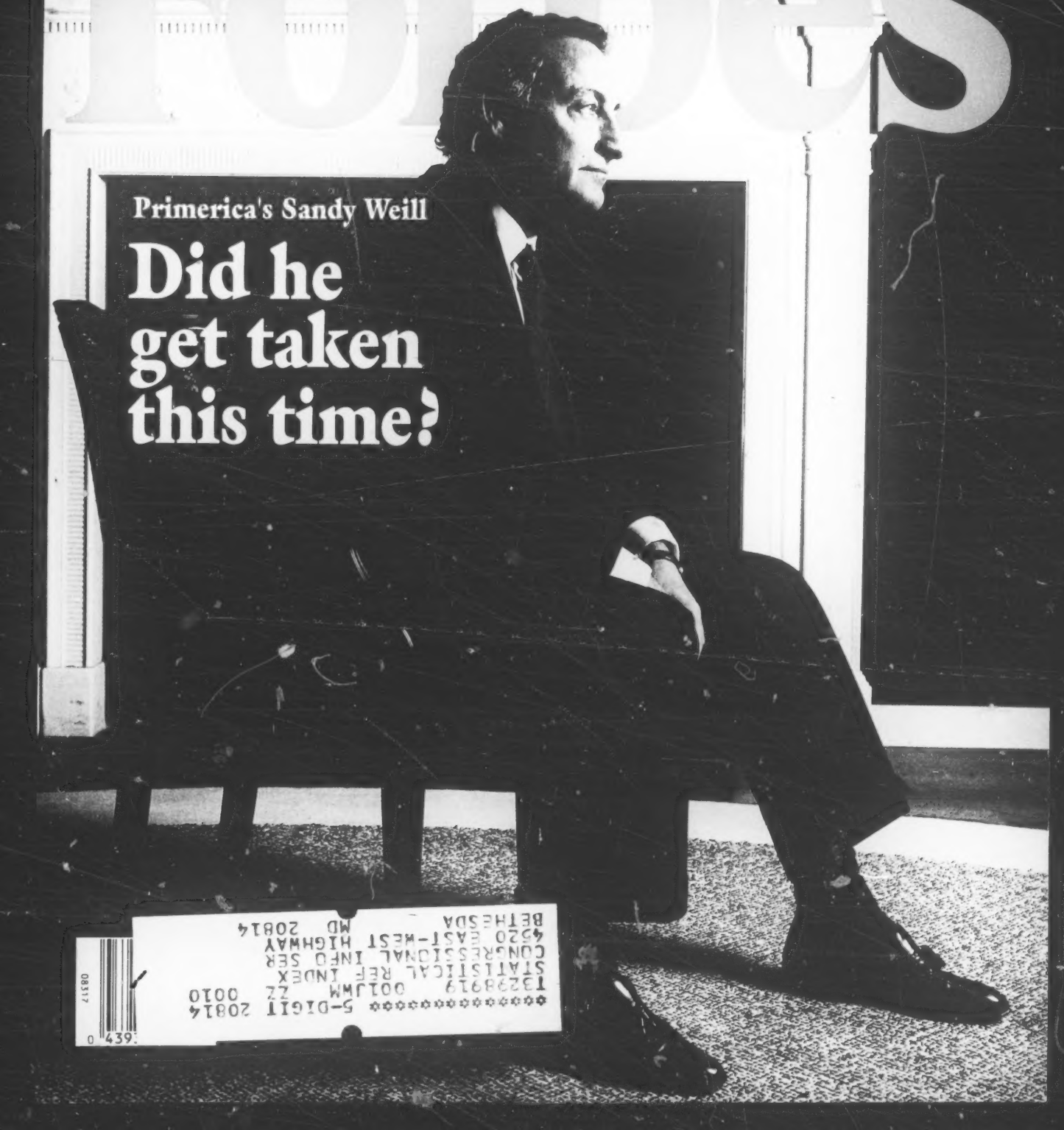
Has John Templeton lost his touch?

Martin Mayer: don't save the big banks

April 15, 1991 Four Dollars

Forbes



Primerica's Sandy Weill

Did he get taken this time?

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APRIL 15, 1991 VOLUME 147 NUMBER 8

An authentic Wall Street hero tries to reprise his past magic
84

Blending failed Texas thrifts and corrugated boxes
44

Add money center banks to the list of endangered species
68

ON THE COVER

Sandy Weill Tries Again 84
By Tatiana Pouschine and Carolyn T. Geer
Can he repeat his Shearson success at Primerica? It's going to be tough.

Flawed Banking Policies 68
By Martin Mayer
Why most money center banks are dinosaurs, and—like those ungainly creatures—are doomed.

Computers/Communications: Sun Microsystems' Success 110
By Julie Pitta
The maker of workstations for techies is now selling them to airlines and banks.

The Funds: Templeton Totters 138
By Michael Fritz
Has John Templeton, that demigod among fund managers, lost his touch? Results aren't what they used to be.

COMPANIES/INDUSTRIES

T2 Medical, Inc. 38
By Gretchen Morgenson
A smart business proposition. It's also a textbook example of why medical costs are still going through the roof.

Wells Fargo & Co. 41
By John H. Taylor
It's a leveraged bet on California real estate.

AnnTaylor, Inc. 42
By Laura Jereski
Who says there aren't any more get-rich-quick leveraged buyouts?

Temple-Inland Inc. 44
By William P. Barrett
How a former bank loan officer has successfully mixed forest products with financial services.

Pharmaceuticals 48
By Howard Rudnitsky
The merger wave hasn't ended. The implications aren't necessarily bullish.

Honda Motor Co. 56
By Andrew Tanzer
Resting on your laurels can be dangerous.

Medco Containment Services Inc. 60
By Howard Rudnitsky
As prescription drug prices escalate and the population ages, Marty Wygod finds more eager customers for his mail order drug company.

Robinson Helicopter Co. 64
By Jerry Flint
Meet the bird man of Torrance.

Up & Comers: C. Brewer & Co. 81
By Fleming Meeks
Macadamia nuts, fruit, and a successful leveraged buyout.

INTERNATIONAL

As I See It: Oleg Voronin 40
By Paul Klebnikov
A Siberian trade unionist thinks Gorbachev may not last through the year.

European Industrial Subsidies 43
By Peter Fuhrman
The latest roadblock to common market unity is being ignored by those who piously preach respect for free markets.

MONEY & INVESTING

The Forbes Index 36

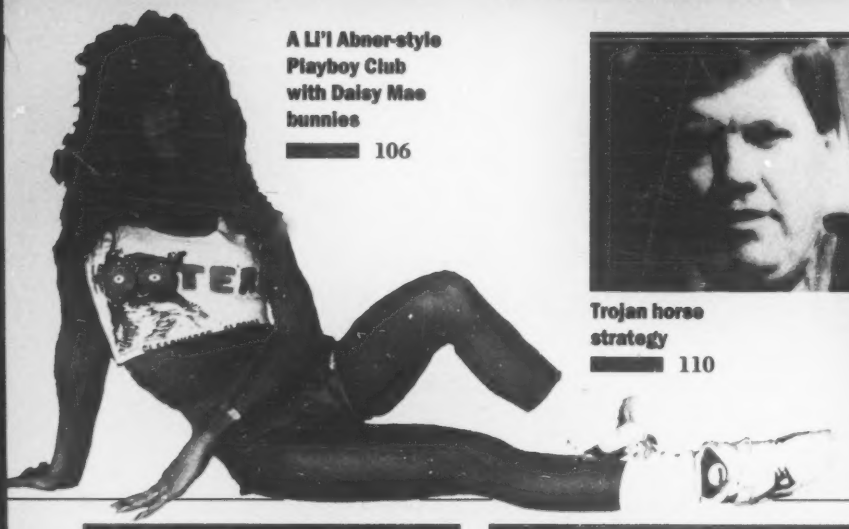
The Money Men: Gilbert de Botton 72
By Dyan Machan
A highly cosmopolitan money manager says buy France and Spain—and sell Germany.

Politically Correct Investing 90
By Fleming Meeks
Social activist Alice Tepper Marlin's latest flower-child stock analysis.

The Forbes Wall Street Review 135

World Markets Review 136

Streetwalker 148
Consolidated Stores; Trinova and Parker Hannifin; Vanguard Cellular Systems; Holly Corp.; Florida East Coast Industries.



A Li'l Abner-style Playboy Club with Daisy Mae bunnies 106

Trojan horse strategy 110

Falling off the mountain 138

LAW AND ISSUES

On The Docket: Antitrust Hardball 94
By James Lyons
The feds are using Dirty Harry techniques to nail their suspects.

Taxing Matters: Capital Gains Update 97
By William Tucker
Some Democratic senators have gotten religion on capital gains. That's good news and bad news.

Numbers Game: New Bankruptcy Guidelines 105
By Laura Jereski
Accounting rules that corporate officials *and* investors can love.

MARKETING

"How Do You Like Our Hooters?" 106
By Seth Lubove
A silly, smarmy, sophomoric . . . and very successful restaurant chain.

COMPUTERS/COMMUNICATIONS

Taiwan's New Brand Names 108
By Andrew Tanzer
Moving beyond clones, the island is off to a strong start in establishing its own brands. Also: Commentary by Richard A. Shaffer.

SCIENCE & TECHNOLOGY

Hartford Steam Boiler 116
By Carolyn T. Geer
Here's an insurance company that spends millions researching new ways to avoid industrial accidents. Also: Commentary by Peter Huber.

PERSONAL AFFAIRS

Fun With Genealogy 122
By Richard Phalon
Finding colorful scoundrels and forebears born out of wedlock.

Books On Disc 124
By David Churbuck
Why it's probably not time yet to buy those CD players for your personal computer.

The Collectors: Absolut Wealth 128
By Christie Brown
In building a great vodka business, Michel Roux is building the bank accounts of dozens of contemporary artists.

Careers: After Military Discharge 130
By Janet Novack
Measuring the job prospects of the thousands of military personnel who will soon flood the job market.

FACES BEHIND THE FIGURES

Dale M. Hanson 132
California Public Employees Retirement System

Robert Wussler 132
Comsat Corp.

Roger Corman 133
Film producer

Martin Emmett 133
Tambrands Inc.

DEPARTMENTS

Side Lines 8
Follow-Through 10
The Informer 16
Readers Say 20
Fact and Comment 23
Other Comments 28
Commentary 33
What's Ahead For Business 35
Flashbacks 151
Thoughts 152

COLUMNISTS

The Larger Context 92
Michael Novak

Capital Markets 141
Ben Weberman

Portfolio Strategy 142
Kenneth L. Fisher

Wall Street Irregular 143
Mark Hulbert

Market Trends 144
Frederick E. Rowe Jr.

Property Strategy 145
Charles E. Babin

Editorial index is on page 6

Cover photo by Thomas Iannuzzi

Johnson & Johnson, 130
Jones, Day, Reavis & Pogue, 94

K, L
Kellogg, 90
Kemper Financial Services, 68
Kimberly-Clark, 130
Knapp Communications, 122
Knockers, 106
Lear Jet, 151
Lifeline Systems, 90
Eli Lilly, 48, 60
Lipper Analytical Services, 138
Lockheed, 10
LTV, 105

M, N
Manhattan Fund, 84
Mannesmann, 143
Manufacturers Hanover, 68, 81
Marion Merrell Dow, 48
Mark IV Industries, 148
Marriott, 130
Matsushita (MCA), 10
May Department Stores, 42, 148
McCaw Cellular Communications, 148
McDonald's, 14, 106
McDonnell Douglas, 10, 64
McGraw-Hill *(Business Week)*, 84
MCI Communications, 90, 114, 135
McKinsey, 68
Medco Containment Services, 48, 60
Medical Care International, 144
Melons, 106
Merck, 48, 97
Merrill Lynch, 42, 110, 136, 148
Metropolitan Life Insurance, 84
Michelin, 60
Michigan National, 68
Microelectronics Technology, 108
Microsoft, 124
Midland Bank, 68
Mips Computer Systems, 110
Mitsubishi Motor, 56
Mobile Telesystems, 108
J.P. Morgan, 148
Morgan Gallery, 128
Morgan Stanley Group, 48, 60, 72, 143
Mother Jones, 20
Motorola, 114, 151
Mugs & Jugs, 106
Mutual Shares, 149
Navistar, 68
NCNB, 148
NEC, 108
Neoax (IU International), 81
News (Twentieth Century Fox Film), 133
Nissan Motor, 56
North Mississippi S&L, 68
Northrop, 10
Nucor, 97
NWA, 110
Nynex, 148

O, P
Ocean Spray Cranberries, 81
Pacific Mutual Life Insurance, 24, 28
Pacific Telesis, 148
PageMart, 114
Panasonics, 120
Paramount Communications, 133
Paramount Communications (Prentice-Hall Press), 90
Parker Hannifin, 148
Pechiney, 43
J.C. Penney, 60
Pennsylvania Electric, 116
PepsiCo, 14, 135
PepsiCo (Pizza Hut), 130
Pfizer, 48, 60, 130
Philip Morris, 90
N.V. Philips, 108, 124
Playboy Enterprises, 106
PNC, 68
Polaroid, 90
Poqet, 114
Porex Technologies, 60
T. Rowe Price, 143
Primerica, 84
Procter & Gamble, 90
Protection Mutual, 116
Prudential Insurance, 38, 138, 151

Q, R
Qualcomm, 114
Quebec bonds, 141
Rally's, 14
Renault, 43
Rhone-Poulenc, 43, 48, 143
RJR Holdings, 133
Robinson Helicopter, 64
Russell Technologies, 116

S, T
Sabena, 43
Salomon, 68
Saskatchewan bonds, 141
Seagate Technology, 142
Sears, Roebuck, 68, 151
Sears, Roebuck (Dean Witter), 81
Security Pacific, 68
Seidler Amdec Securities, 10, 148
Sharp, 114
Shearson Lehman Hutton, 84, 97, 110, 148
Siemens, 43
Skypix, 132
SkyTel, 114
SmithKline Beecham, 48
Sony, 124
Southwestern Bell, 148
Sovran Financial, 68
St. Joe Paper, 149
Stone Container, 44
Sun Microsystems, 110
Sunbeam-Oster, 105
Surgical Care Affiliates, 144
Swiss Bank, 110
Syntex, 48
T2 Medical, 8, 38
Tambrands, 133
The Telephone Switch Newsletter, 143
Temple-Inland, 44
Templeton, Galbraith & Hansberger, 138
Tengelmann (Great Atlantic & Pacific Tea), 68
Texaco, 105
Texas Instruments, 108
Textron (Bell Helicopter), 64
Thiokol, 142
Thomson-CSF, 43
Time Warner, 44
Toyota Motor, 56
Travelers, 38
Trinova, 148
Turner Broadcasting System, 132
Turner Broadcasting System (CNN), 108
Twentieth Century funds, 135

U, V
U.S. West, 148
United Technologies, 141
United Technologies (Sikorsky Aircraft), 64
Upjohn, 48
Vanguard Cellular Systems, 148
Vogl Communications, 35

W, Z
Wal-Mart Stores, 135
Walgreen, 60
Wall Street Journal, 145
Warner-Lambert, 48
Wedbush, 48
Wells Fargo, 41, 68
Wertheim Schroder, 148
Wilkerson Group, 48
William Morris Agency, 10
Wometco, 133
Zenith Electronics, 108

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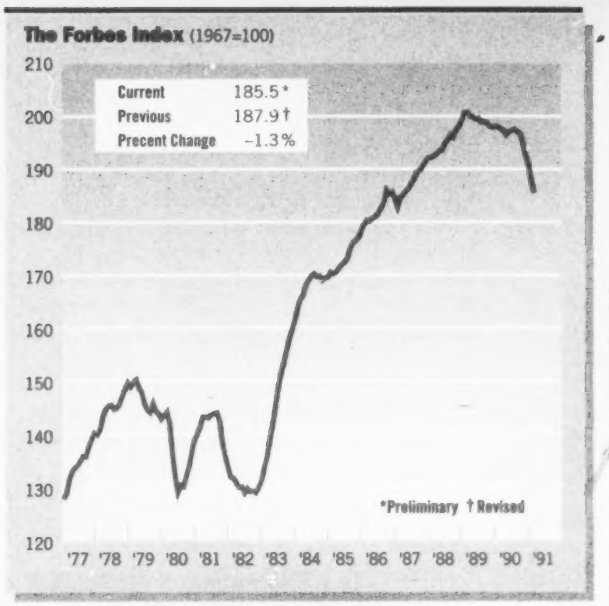
THE FORBES INDEX

BY TIMOTHY DODMAN



The economy is showing a glimmer of a recovery. February retail sales were up 0.8%, while housing starts gained 14.3%. Exports rose 3.6% in January, but the trade deficit increased 11.5%. Inflation could be another problem. Although the overall Consumer Price Index was up just 0.2% in February, the "core" inflation rate (the CPI less food and energy costs) rose 0.7%. The cost of services has also been rising at a fast clip. The services component of the Consumer Price Index is up 6.3% over the last 12 months, versus a 5.3% increase for the overall index.

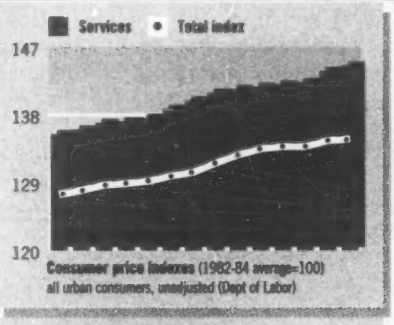
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-17.6%
Index of leading indicators Jan vs Dec	Dept of Commerce	-0.4%
Trade balance 12 months ended Jan 1991	Dept of Commerce	-$97 bil
All-commodity producer price index Feb vs Jan[2]	Dept of Labor	0.0%
GNP 4th quarter vs. 3rd—annualized growth	Dept of Commerce	-2.0%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	5.0%

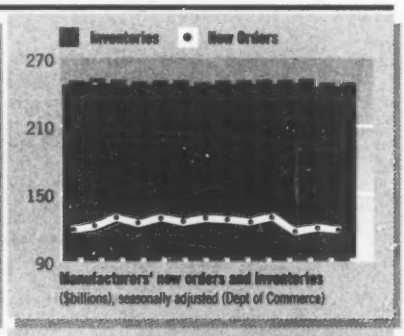
[1] U.S.-based manufacturers, excludes imports, as of 3/20/91.
[2] Wholesale goods. [3] January 1991.

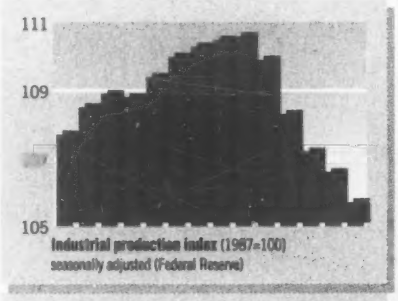
Index components

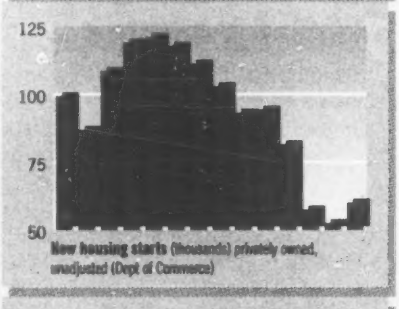
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

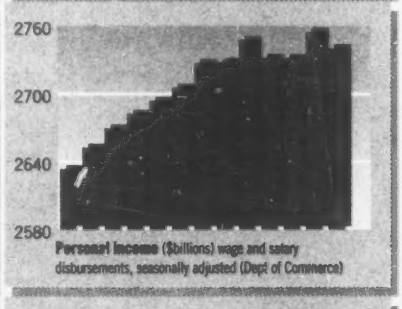
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

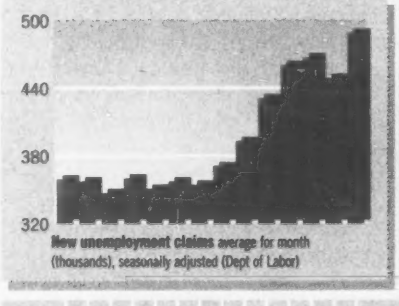


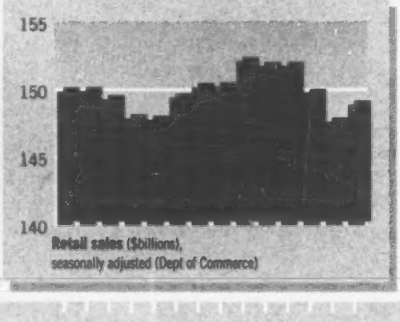


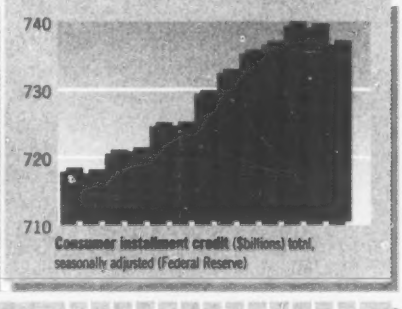












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The merger wave has not ended in the pharmaceutical business. The implications aren't necessarily bullish for everyone.

An industry top?

By Howard Rudnitsky

THE PAST TWO YEARS have witnessed a half-dozen large pharmaceutical industry mergers and major marketing alliances, including Bristol-Myers/Squibb, Marion/Merrell Dow, SmithKline/Beecham and Rhone-Poulenc/Rorer. In takeovers, American Home Products bought A.H. Robins and Roche acquired a controlling interest in Genentech. The consolidation trend is not over. By some drug industry analysts' reckoning, at the end of the decade a third of today's 20 largest U.S. drug companies will have merged, bought or become niche players.

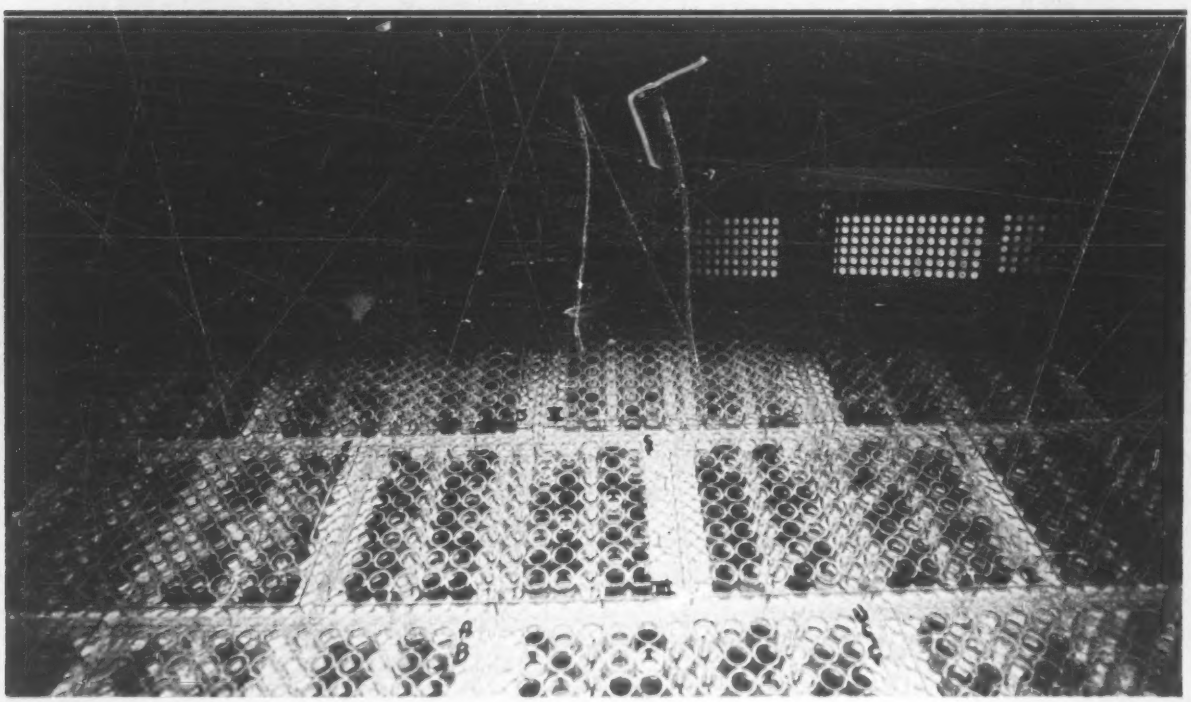
Potentially vulnerable are drug companies with strong cash flows and modest debt, but whose bestselling drugs are coming off patent when the costs of launching new drugs are sky-high, and whose new-product pipelines are average at best.

Consider SmithKline Beecham. Before the merger, SmithKline Beckman ran into trouble when its lucrative ulcer drug, Tagamet, got hit with competition from drugs like Glaxo's Zantac and Merck's Pepcid. Tagamet accounted for nearly one-half of Smith-Kline Beckman's earnings in 1988, and its U.S. patent expires in 1994. Without big new drugs at hand to replace Tagamet, SmithKline Beckman got gobbled up by Britain's Beecham in 1989.

SmithKline may not be an exceptional case. In five years, says Wedbush Morgan Securities drug analyst David Saks, drugs that currently account for about $10 billion of the industry's $38 billion in sales will be coming off patent. These drugs will include Marion Merrell Dow's Cardizem, Bristol-Myers Squibb's Capoten and Eli Lilly's Ceclor.

As a result, companies like Marion Merrell Dow, American Home Products, Syntex, Warner-Lambert and Upjohn could either suffer SmithKline's fate or have to acquire other companies to broaden their drug product lines. Among the handful of potential buyers could be a large European drug company wanting to establish a major presence in the U.S.

According to Paul Brooke, Morgan Stanley's highly regarded health care analyst, "The single most fundamental change shaping the industry is the acceleration of the rate of erosion of older products." The lead time between the appearance of a pioneering drug and another one to compete against it is dwindling to as little as three years, compared with five to seven years a decade ago.



Bristol-Myers Squibb

Drug testing at Bristol-Myers Squibb lab in Wallingford, Conn.

Finding ways to spread the high cost of drug research across a global sales base.

Faced with these shrinking product life cycles, firms must try to get as many new drugs onto the market as soon as they can. Yet it now costs $231 million (including failures and lost opportunity costs) to bring a new commercial drug to market.

The Pharmaceutical Manufacturers Association expects its members' R&D spending to rise 13.6% this year, to over $9 billion. And sales and marketing costs have been climbing by about 15% annually (to $10 billion, about 25% of sales, last year) with only a moderate letup expected.

With the development and approval of new drugs taking so long—over ten years—it becomes harder for smaller firms to wait out the lengthy testing and FDA review process unless they have other drugs to fall back on.

To compete effectively against giant European drug companies with a U.S. presence, like SmithKline Beecham, Glaxo, Hoechst, Bayer and Ciba-Geigy, U.S. drug companies will have to spend ever larger sums on R&D, spreading the cost over a large global sales base. Eastman Kodak found this out the expensive way. Kodak paid over $5 billion to acquire Sterling Drug in 1988. But despite a research and development budget of $250 million, 15% of revenues, without a large overseas presence Sterling couldn't compete worldwide.

So in January Kodak decided to have Sterling Drug join forces with France's Sanofi to obtain greater international marketing penetration for Sterling and a doubling of R&D budgets. Even so, it will take some time for Kodak to reap any meaningful returns on its Sterling investment.

While their costs of drug discovery continue to rise, the drugmakers' prices are expected to come under pressure, especially in the U.S. market. This would be unprecedented in an industry that enjoys not only tremendous pricing power but which has also streamlined operations—witness average gross margins of nearly 70% today, up from 55% in 1980. In the 1980s drug prices rose much faster than the Consumer Price Index, partly because of the growing number of retirees in funded benefit plans and more complex, expensive drugs coming on the market.

Increasingly powerful managed health care groups are trying to compress those ballooning prices. Last fall Congress ignored drug industry objections and passed legislation enabling states, under the Medicaid program, to obtain price discounts on $3.5 billion of drugs dispensed annually. Under the law, starting this year, states can demand the large discounts already provided to other big customers like the U.S. government and private groups like Health Maintenance Organizations. Medicaid accounts for about 10% of the drug industry's domestic revenues. Some analysts estimate the new law could cost the industry up to 1% to 2% this year in earnings growth.

A potentially more ominous cloud on the pricing horizon: Managed health care firms in the private sector are just starting to look at the cost of outpatient drugs, which account for 75% of drug revenues. The accelera-

Merck points the way

THE DRUG business is one of the key industries in which U.S. companies are more than holding their ground against the Japanese. Total share of the U.S. market held by Japan's drug firms: 3%.

On the other hand, foreign drug companies are making inroads into Japan's highly lucrative $30-billion-a-year prescription drug market. Morgan Stanley's Hiroshi Nakagawa figures the aggregate market share for the top 30 foreign drug companies (more than a third American) doing business in Japan will grow to close to 30% in the second half of the 1990s.

Many foreign drug companies originally joined with Japanese firms to gain access to local marketing and distribution networks. Now the foreigners are terminating the partnerships and becoming powerful competitors.

Among the more successful foreign drug companies in Japan is Merck, which in the early Eighties acquired a majority stake in a Japanese pharmaceutical firm. Merck's estimated Japanese sales last year were $750 million, making it the eleventh-ranking drug company in Japan.

Japan's per capita consumption of prescription drugs is two to three times that of the U.S.' Japan spends 6% of its GNP on health care (versus 11% to 12% in the U.S.), according to the U.S. Pharmaceutical Manufacturers Association. But 30% of Japan's health care bill is spent on drugs (versus 7% in the U.S.). Once every two years the government reduces drug prices. But costs remain high. One reason: Japanese doctors get a cut of whatever prescription drug sales they generate. Thus a patient may get five to six different prescriptions a visit.

Nakagawa doubts this cozy system will last indefinitely. He predicts "severe international competition and the rationalization of the medical system," which will lead to mergers, and possibly acquisitions of drug firms by large Japanese pharmaceutical houses.

Does that mean major acquisitions of U.S. firms by the Japanese? For now, probably not. P. Reed Maurer, who represents the U.S. Pharmaceutical Manufacturers Association in Japan, says Japanese firms will concentrate on building U.S. market share gradually while looking for market niches. Most likely acquisition targets: biotech firms and companies with unique drug delivery systems. —H.R.

New drug approvals: more critical than ever for drug companies

Company	1990 sales worldwide ($bil)	1990 sales total U.S. ($bil)	% U.S. ethical sales off patent*	EPS 1990	EPS % change vs 1989	Price/earnings ratio	Price recent	Price 52-week high	Price 52-week low
American Home Products	$6.8	$4.6	87%	$3.92	10.7%	14	56⅜	59⅝	43
Bristol-Myers Squibb	10.3	7.0	26	3.33	132.9†	23	76⅞	78⅝	51
Glaxo Holdings	5.4	2.1	20	2.02	23.2	19	38	40¼	24½
Eli Lilly	5.2	3.3	44	3.90	21.9	19	75¾	90⅜	61⅛
Marion Merrell Dow	2.5	1.8	100	1.72	20.3‡	22	38½	39⅝	21
Merck	7.7	4.1	20	4.56	20.1	23	103¾	109	68⅛
Pfizer	6.4	3.5	78	4.77	18.1	22	104	109	55
Schering-Plough	3.3	1.9	66	2.50	13.6	20	49⅛	52¼	38⅜
SmithKline Beecham	8.7	3.9	74	3.95	12.0‡	15	58	62	33¾
Syntex	1.7	1.2	90	3.50	29.6	22	76¾	78½	48¾
Upjohn	3.0	1.8	91	2.48	42.5	19	46⅞	48	33
Warner-Lambert	4.7	2.4	100	3.61	18.4	20	73	82¼	50½

*Percent U.S. ethical drug sales off patent 1987-94 versus 1989 U.S. ethical drug sales only. These figures supplied by David Saks of Wedbush Morgan Securities.
†Results benefited from 1989 merger. ‡Pro forma basis.

Drug company earnings gains are strong across the board. But some companies facing patent expirations in the U.S. will find future gains tougher to come by unless they win approval for major new drugs.

tion of drug utilization reviews by third-party insurance reimbursement managers over the next several years, say some analysts, will prove more of a threat to drug company profit margins than Medicaid discount pricing.

In a few years managed care service operators like HMOs and mail order firms will implement sophisticated drug reviews in an attempt to slow rising drug costs. To drug companies' dismay, the HMOs are increasingly using drug formularies, which typically allow only one drug to be reimbursed in each category. These operators will generate enough buying volume to obtain discounts even on drugs that are patented.

Already the largest mail order drug company, Fair Lawn, N.J.-based Medco Containment Services *(see story, p. 60)*, recently signed up a half-dozen drug companies in its Prescribers Choice program.

High-powered research drug companies like Pfizer and Eli Lilly still haven't signed up, however. They have that luxury because they hold many leading patented drugs and have strong reputations with physicians who prescribe their products. But others aren't as fortunate.

What of prices overseas, where big U.S. drug companies book about 40% of their sales? Tougher going here, too. According to Donaldson, Lufkin & Jenrette health care analyst Kent Blair, drug prices had been high in countries like Germany and the Netherlands. But in the last two years Germany has been cutting drug prices, and the Netherlands is likely to follow suit. France recently announced a 21% cut on four drugs, including Lilly's Prozac and Merck's Zocor. Overall, some analysts figure that by the mid-1990s the EC could reduce drug prices by as much as 15%.

A few bright spots: By consolidating their operations abroad, drug companies can make them more efficient. Also, many drug companies today have modest amounts of debt and will be able to absorb the weaker firms. John Wilkerson, chairman of the Wilkerson Group, a New York-based health care management consulting firm, is optimistic about the industry despite the pressures. He thinks some of the old-line companies could use their financial resources to invest in or buy into the rapidly growing biotech companies—Cetus, Biogen, Immunex, British Biotechnology, Centocor. Wilkinson believes the industry is consolidating, but he thinks the consolidation will be centered on specific therapeutic categories. For example, in a major class of drugs to treat hypertension, called ACE inhibitors, Merck already controls around 45% of the market. In the diabetes area, leader Lilly would like to add to its strong product line.

And Merck's chairman, Dr. P. Roy Vagelos, is projecting a better-than-10% overall domestic market share for his company—soon, up from 8% five years ago.

What does all this mean to investors? It could mean that some companies will be taken over at a premium and thus give investors some quick profits. But, for the industry as a whole, while earnings look strong now, in five years the picture could change. Which may explain why the industry's average price/earnings ratio is just 10% higher than for the market as a whole. The market may be worried about an anticipated profit margin squeeze.

As Morgan Stanley's Paul Brooke says, "The most tangible evidence of the strategic changes that are occurring is the enormous amount of merger and acquisition activity that occurred in 1989 and 1990. Such activity is typical of an industry top." ■

Some investors go for value, some for growth. The Twentieth Century family of funds has put together an excellent record with a growth philosophy.

James Stowers III, who helps manage the group's $8 billion in equities, prefers dividend-paying issues whose price/earnings ratios are expected to increase. "We're not impressed by a stock's cheap fundamentals or low price/book ratio," says Stowers. "The only thing that impresses us is a company with accelerating earnings and sales growth. We paid 100 [times earnings] for MCI and made 6 times our money on that stock," recalls Stowers, who is always at or near 100% invested. In short, the Stowers style is to chase after stocks with a lot of momentum, an approach that works well until a bear market arrives or a favorite reports disappointing earnings. In the FORBES rating system, the Twentieth Century funds tend to get A+'s in bull markets and C's or worse in down markets.

Twentieth Century currently holds about 355 issues in six equity funds. Among them: Abbott Laboratories, PepsiCo and Wal-Mart.

Stock prices took a breather during the two weeks ended Mar. 21, with most indexes declining slightly. But the equally weighted Wilshire index, with a 1.7% gain, outperformed capitalization-weighted indexes, which were hurt by the sharp drop in IBM.

The overall market[1]

The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
US HealthCare	49⅝	22%	31	7,267	1.2
General Dynamics	29¼	21	NM	2,696	2.1
United Healthcare	37¾	19	29	7,845	1.7
Wang Labs	4	19	NM	11,369	3.7
Valhi	9½	17	15	326	1.4

The worst performing stocks

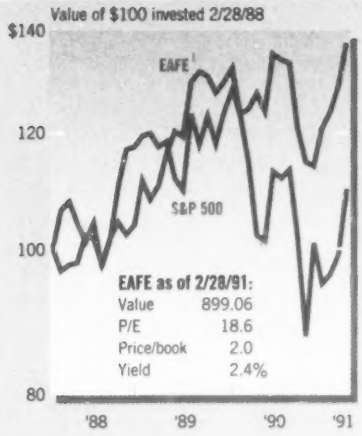
Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Chemical Waste Mgmt	18⅝	-24%	22	5,043	1.9
Laidlaw	13¼	-21	12	19,029	2.3
First Interstate Bancorp	28⅝	-20	4	1,708	0.5
Security Pacific	24⅛	-18	23	8,112	0.9
Applied Materials	26⅞	-18	17	1,940	1.1

Closeup on the market

Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,497.0	-2.3%
Wilshire index 6,000 stocks, equal weighted	22.5	1.7
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,855.5	-3.6
S&P 500 Capitalization weighted cross section, major stocks	366.6	-2.5
NYSE Capitalization weighted, all listed common stocks	200.8	-2.2
Amex Capitalization weighted total return: stocks, warrants	353.2	-0.6
Nasdaq Capitalization weighted, all issues except warrants	464.6	-2.3
Amex international market index Capitalization weighted, 50 largest ADRs	322.28	-2.4
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	867.50	-2.6%
Institutional[5] Approximately 200 stocks with high institutional ownership	116.80	-4.1
Individual[5] Approximately 200 stocks with low institutional ownership	99.46	-2.1
Russell 2000 index 2000 small market value stocks, capitalization weighted	165.78	-1.1
Gold[6] (composite quote of 6 major dealers)	$362.90	-1.2
Yen[6] (per $U.S.)	136.80	0.9
Commodity index[6] (CRB futures index, 1967=100)	219.86	-0.5
Oil[6] (W Texas Intermediate)	$20.15	3.9
T bills[6] (90 days)	5.85%	-22.0 basis points[7]
Broker loan rate[6]	8.00%	-100.0 basis points[7]

Note: All data for periods ending 3/21/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since the index was created. Stocks listed above have market capitalization of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over recent 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 3/22/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

Foreign vs. U.S. markets



Developed markets

Market	Total return[2] 3 months	12 months	P/E
Sweden	28%	4%	11
Singapore[3]	24	-2	19
Japan	21	-12	35
Hong Kong	20	23	11
Spain	18	13	10
Norway	-5	-13	11
Finland	3	-28	9
New Zealand	5	-18	7
Germany	6	-1	14
Netherlands	7	11	17

Emerging markets

	Total return[2] 3 months	12 months	P/E
Region			
Latin America	18%	-4%	NA
Asia	5	-52	NA
Country			
Venezuela	59	814	37
Chile	48	53	9
Brazil	35	-51	8
Turkey	-29	3	32
India	-25	22	19
Korea	-9	-30	21

Hong Kong, Singapore and Japan are the foreign markets with the best prospects for the remainder of 1991, in the view of Thomas Robinson, chief international equity strategist at Merrill Lynch. He bases his view on an expectation that the Japanese economy will be stimulated by falling interest rates. Robinson forecasts that over the next few years Japan's economy will grow at a 4.5% real rate, twice what he expects for the U.S. This helps justify the steep 35 price/earnings multiple of Japanese stocks.

The standout market in the table *(upper right)* is a very illiquid and volatile one—what is euphemistically known as an emerging market. That is Venezuela's stock market, whose combined capitalization of $10 billion is just equal to that of H.J. Heinz Co. Over the last 12 months the tiny Caracas bourse was up 814% (dividends included) in response to the Venezuelan government's economic reforms. Manuel Perez Dubuc, a broker with Mercado de Capitales, Citibank's arm in Caracas, says that although there are still a handful of good buys left among Venezuelan industrial stocks, "the *gran fiesta* is over."

Who's hot

Company/country	Business	Price	3-month price change	P/E
Ercros/Spain	chemicals	11½	82%	4
Nissan Motor Iberica/Spain	automotive	6⅛	67	9
Cosmo Oil/Japan	energy	6½	65	50
Saab-Scania/Sweden	automotive	50⅞	63	18
Mitsubishi Petrochemical/Japan	chemicals	8¼	62	16

Who's not

Company/country	Business	Price	3-month price change	P/E
Groupe Victoire/France	insurance	222¼	-34%	8
Free States Cons/S Africa	gold mining	6⅝	-28	4
Tootal/UK	textiles & apparel	1¼	-23	9
Herpener/Germany	multicompany	253⅜	-20	13
Asko Dt Kaufhaus/Germany	merchandising	516⅜	-19	17

Cheap foreign stocks

Company/country	Business	Price	Earnings	P/E
Total Francaise Petroles/France	energy	129¼	$21.20	6
Banco Santander/Spain	banking	54⅛	5.38	10
Guinness/UK	beverages	15⅜	1.09	14
Hitachi/Japan	electronics	9¾	0.50	20
Komatsu/Japan	machinery	7⅜	0.24	31

High-yielding foreign stocks

Company/country	Business	Price	Yield	P/E
Standard Chartered/UK	banking	5½	16.2%	10
Anglo American/S Africa	gold mining	29⅞	13.0	12
Strockland Trust/Australia	real estate	1⅝	11.5	11
DAF/Netherlands	machinery	13⅜	10.9	10
Iberduero/Spain	utility	7½	7.9	10

Note: Data for period ending 2/28/91. Selected stocks have a market capitalization of a least $300 million. [1]EAFE is a price return index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. [3]Includes Malaysia. NA: Not available. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation for period ending 1/31/91.

My advice to investors frightened by the IBM earnings drop and other bits of bad news: Buy on weakness.

The bull lives

BY CHARLES E. BABIN

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PEOPLE SEEM to like worry stories, so it wasn't surprising that the financial press abounded with articles predicting a stock market collapse as a consequence of Iraq's invasion of Kuwait. And it all seemed to add up, given the threat of conflagration in Arabia and a moribund economy at home. As it turned out, those worry stories were quite a buy signal so far as the stock market was concerned.

Equities, as measured by the S&P Composite, took off, from a low of 295 on Oct. 11, 1990 to an alltime high of 369 on Feb. 19—a tremendous 25% gain. As the Feb. 26 *Wall Street Journal* put it, "Rarely have so many professionals been so wrong." Two weeks later the S&P set another record, closing at 376.72.

But the worrywarts aren't dismayed. Today's fear is that the stock market is overvalued. After all, if equities were vulnerable at low levels last fall, when the bad news had yet to break, then they must really be top-heavy now that the red ink is flowing.

Again the gloomsters are wrong.

Consider that the S&P stood at 337 on Aug. 25, 1987, just prior to the October crash. So, at its peak, the market was only about 12% higher than its level of 3½ years ago—hardly an impressive performance, especially when you take into account the 17% inflation that piled up over the same period. In my opinion, we have been riding a bear—not a bull—market for 43 months now. Had investors simply rolled funds over in riskless Treasurys they would have done as well as an S&P index fund.

Other valuation techniques reinforce the view that the stock market may not be ahead of itself. Think of the stock market as the price of the economy. In this sense, it is useful to evaluate the stock market's capitalization (i.e., all listed NYSE shares multiplied by their respective prices) relative to GNP.

The table presents a snapshot of this price/economy ratio at five-year intervals since 1960. In estimating year-end 1990's figure, I have assumed zero nominal GNP growth for the quarter just ended, putting the ratio at roughly 51%—below its central tendency (53%). Interestingly, three of the seven years shown in the table were periods when calendar-year average real GNP growth was negative (1970, 1975 and 1980). Excluding these recession years, the market's average P/E would have been even higher (57.5%). From this perspective, assuming even the experts' conservative GNP forecasts through 1992 come to pass, the odds favor stocks over cash equivalents.

Why, given these facts and figures, did so many pros miss the early 1991 rally? They failed to pay attention to the reliable historical linkage between the credit and equity markets.

Go back to what I reported in "Don't panic" (FORBES, *Sept. 3, 1990*) and reiterated in "T bills and tea leaves" *(Oct. 1, 1990)*: Credit market behavior in the aftermath of Saddam's mugging of Kuwait was at odds with the bears' argument that runaway oil prices would fan inflation and devastate both the economy and equity markets. Even in the face of volatile oil prices and a slumping economy, T bill rates continued to decline. If history was any guide, it was clear that this improved credit market environment had increased the odds that the stock market would recoup its postinvasion losses—precisely what happened.

It is important to note that interest rates have continued to slide in 1991. From a high of slightly over 9% (March 1989), three-month bill yields have dropped below 6%. So what's the message for nervous Nellies? The credit markets are signaling an economic recovery with modest inflation and invigorated corporate earnings—the stuff bull markets are made of. While there will be ups and downs, on balance the surprises over the next year or so should be on the plus side. Now is not the time to shun equity investments. ■

The market's price-to-economy ratio

	Stock market capitalization* ($bil)	Gross national product† ($bil)	Stock market as fraction of GNP
1990	$2,813.8	$5,518.9‡	51.1%‡
1985	1,368.3	4,144.6	47.1
1980	1,242.8	2,813.7	42.7
1975	885.1	1,704.8	40.2
1970	612.5	1,053.1	58.2
1965	537.5	743.4	72.3
1960	387.9	515.8	59.6
Average			53.0%

*All NYSE-listed shares at year-end. †Year-end GNP measured in current dollars, as interpolated from QIV and QI levels. ‡Estimate.

Is the stock market overvalued? Not necessarily. Relative to the economy, the market's capitalization at year-end 1990 was normal.